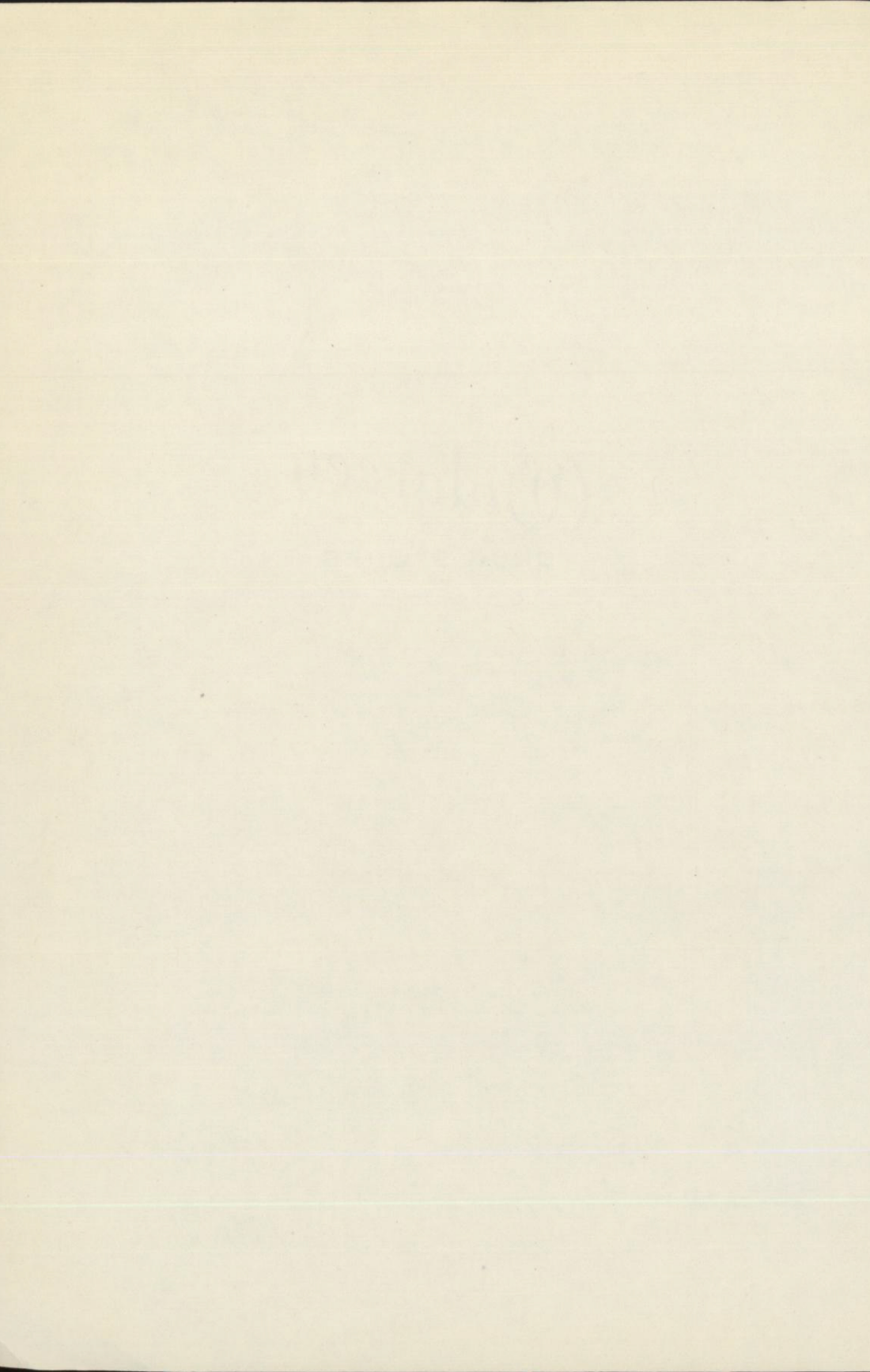
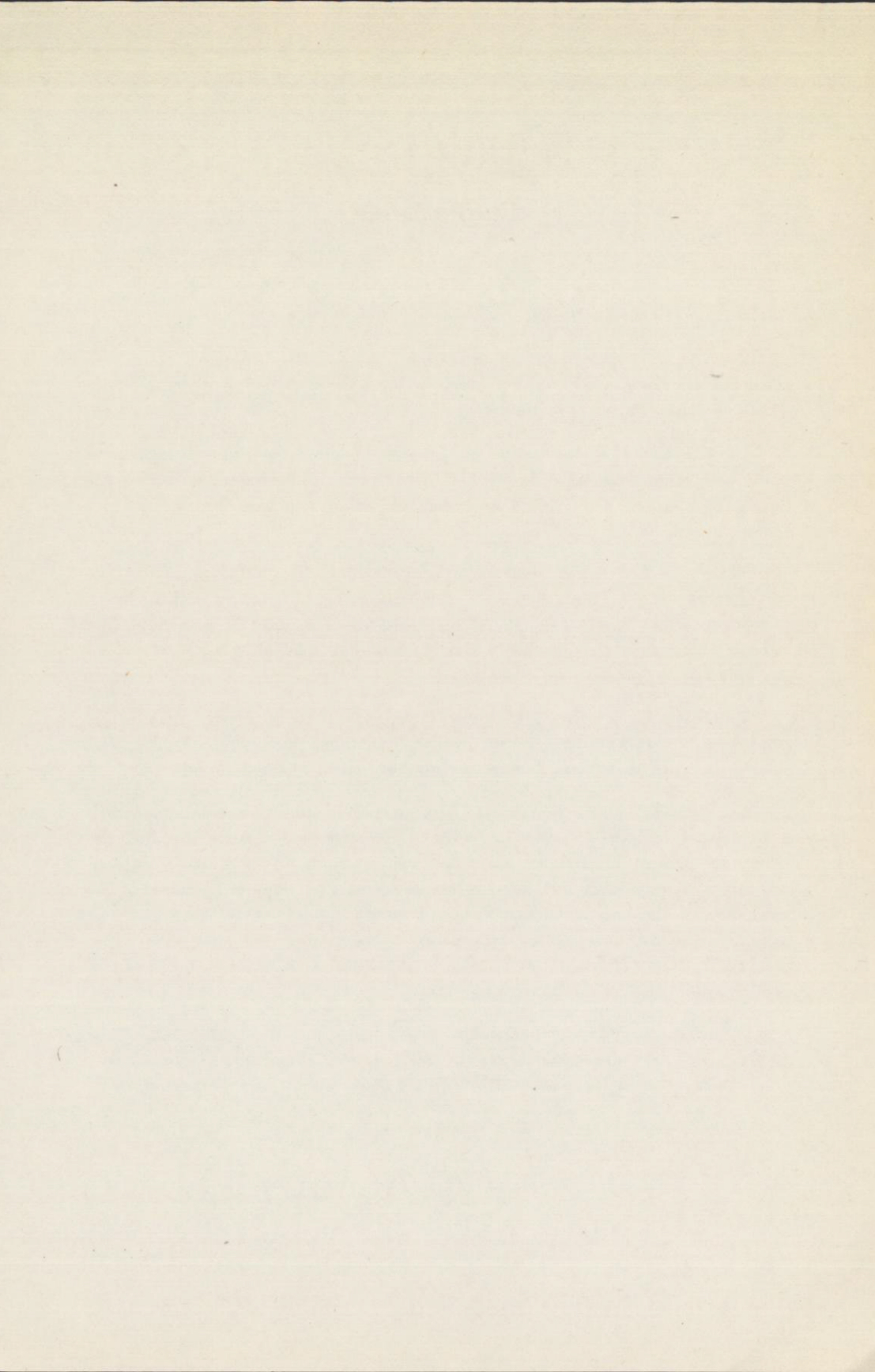


Walgreen  
DRUG STORES

WALGREEN CO.  
REPORT TO STOCKHOLDERS  
*Year Ended*  
*September 30, 1938*







# Walgreen

## DRUG STORES

CHICAGO

November 21, 1938.

### TO OUR STOCKHOLDERS:

The financial statements which follow indicate that earnings per common share for our fiscal year ended September 30, were \$1.25. This compares with \$1.87 per share in the previous year.

As you know, a downswing in general business conditions commenced about the same time as did our last fiscal year, and became more intense during its course. We reduced overhead and other expenses, but we did not reduce wages.

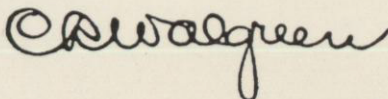
There has been some evidence of improvement in conditions in the last two months or so. Total costs of doing business are currently a little lower in ratio to sales than a year ago. It therefore appears reasonable to hope that some restoration of the income of our stockholders may be considered before too long, if the present trend continues.

You may be interested to know that more than a quarter of all our employees are stockholders and a considerably higher percentage of those who have worked for us for any length of time hold stock in the company.

The financial statements, having been prepared along the usual lines will, in general, I believe, be clear to readers, but perhaps I should note that the "Prepaid" item on the balance sheet is unusually high. This is due mainly to two things— some large advances to lessors secured by rents were made, to the advantage of the company, since we had money not otherwise at work; and certain large insurance policies happened to be placed near the end of the fiscal year. The "Prepaid" item will, in the ordinary course of business, be steadily and considerably reduced.

We are ever mindful of the need of maintaining and, if possible, increasing the efficiency of our organization, of our physical equipment, and of our coverage in terms of locations. Efforts in all these directions will be continued.

Yours very truly,



*President.*

ARTHUR ANDERSEN & Co.

135 SOUTH LA SALLE STREET  
CHICAGO

To the Board of Directors,  
Walgreen Co.:

We have made an examination of the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARY COMPANIES as at September 30, 1938, and of the statements of consolidated profit and loss and surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statements of profit and loss and surplus accounts fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at September 30, 1938, and the results of their operations for the year ended that date.

*Arthur Andersen & Co.*

Chicago, Illinois,  
November 16, 1938.



WALGREEN CO. (AN I  
AND SUBSIDIAR  
CONSOLIDATED BALANCE S

## A S S E T S

### CURRENT ASSETS:

Cash in banks, in transit and on hand.....	\$ 4,269,877.72
Tax anticipation warrants, at cost (quoted market price \$35,000)	35,000.00
Accounts receivable, less reserves.....	869,693.54
Inventories of merchandise, priced at the lower of cost or market; based on physical inventories taken continuously throughout the year, quantities and condition determined by the company	9,269,928.79
TOTAL CURRENT ASSETS .....	<u>\$14,444,500.05</u>

PREPAID RENT (INCLUDING ADVANCES TO LESSORS), INSURANCE, TAXES, ETC. ....	1,739,488.38
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### INVESTMENTS AND OTHER ASSETS:

Stocks and bonds of other companies, at cost.....	\$ 502,363.80	
Preferred stock of Walgreen Managers Investment Co., at cost....	50,000.00	
Note receivable from Walgreen Managers Investment Co., secured by 44,711 shares of Walgreen Co. common stock.....	842,000.00	
Notes receivable from sale of assets, less reserves.....	150,822.59	
Other receivables, etc., less reserves.....	47,110.17	
Cash surrender value of \$725,000 insurance on life of C. R. Walgreen, president .....	<u>235,180.05</u>	1,827,476.61

### FIXED ASSETS:

Classification	Cost, Less Write-downs in Prior Years	Reserves for Depreciation	Net	
Land .....	\$ 716,951.64	\$ —	\$ 716,951.64	
Buildings (including buildings on leased land) .....	2,106,969.32	257,598.54	1,849,370.78	
Equipment .....	11,161,447.11	4,489,985.87	6,671,461.24	
	<u>\$13,985,368.07</u>	<u>\$4,747,584.41</u>	<u>\$9,237,783.66</u>	
Short life equipment, at cost less amortization.....			<u>329,593.29</u>	9,567,376.95
GOODWILL, LEASEHOLDS, LEASEHOLD IMPROVEMENTS, ETC., at nominal value .....				1.00

\$27,578,842.99

ILLINOIS CORPORATION)

RY COMPANIES

HEET—SEPTEMBER 30, 1938

## LIABILITIES

### CURRENT LIABILITIES:

Accounts payable .....	\$ 2,109,878.53
Employees' investment certificates.....	78,140.00
Accrued payrolls, rentals and other expenses.....	448,738.68
Accrued taxes; real estate, personal property, sales, social security, etc. ....	643,631.86
Reserve for Federal income taxes (subject to final review and determination by the Treasury Department).....	415,672.29
<b>TOTAL CURRENT LIABILITIES .....</b>	<b>\$ 3,696,061.36</b>

### CONTINGENT LIABILITIES:

In connection with pending lawsuits, etc., estimated by the company not to exceed.....\$200,000.00

Under other agreements: A trustee acting for a group of employees of the company, in August 1936, purchased certain shares of Walgreen Co. common stock, principally from an estate, and sold this stock to such employees under deferred payments; 34,000 shares have been pledged by the trustee to secure repayment of bank loans. Walgreen Co. has agreed that it will, in event of default on the part of the trustee, repurchase such shares for an amount equal to the unpaid amount of such loans..... 417,000.00

### CAPITAL STOCK AND SURPLUS:

Preferred stock  $4\frac{1}{2}\%$  cumulative, par value \$100 per share, with warrants attached for the purchase on or before September 15, 1943 of common stock at prices varying from \$34.00 to \$44.00 per share; redeemable on call or in voluntary liquidation at premiums varying from \$7.50 to \$4.00 per share—

Authorized and outstanding 100,000 shares.....\$10,000,000.00

Common stock without par value—

Authorized 1,955,828 shares (100,000 shares reserved against exercise of warrants attached to  $4\frac{1}{2}\%$  preferred stock)

Issued 1,292,485 shares..... 11,484,111.98

Earned surplus (restricted in an amount equal to two years' dividends on  $4\frac{1}{2}\%$  preferred stock)..... 2,398,669.65 23,882,781.63  
\$27,578,842.99



**WALGREEN CO. (AN ILLINOIS CORPORATION)  
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED SEPTEMBER 30, 1938**

Particulars	Amount
GROSS SALES, less returns and allowances.....	\$68,847,606.22
Less—Provision for sales taxes.....	1,122,247.75
Net sales .....	\$67,725,358.47
COST OF SALES.....	43,555,082.08
Gross profit on sales.....	\$24,170,276.39
OTHER OPERATING INCOME .....	219,231.44
Total .....	\$24,389,507.83
OPERATING EXPENSES:	
Selling, advertising and occupancy.....	\$20,909,466.98
General and administrative.....	707,109.05
Net profit from operations.....	\$ 2,772,931.80
OTHER CHARGES AND INCOME:	
Other charges—	
Improvements to leased properties.....	\$ 259,373.17
Lease cancellation payments and expenses (net).....	47,532.27
Capital stock and franchise taxes, etc.....	85,494.74
Miscellaneous .....	41,586.60
Total .....	\$ 433,986.78
Other income—	
Profit on sale of securities (net).....	\$ 45,414.43
Dividends received .....	31,254.58
Interest received, etc. ....	58,232.09
Total .....	\$ 134,901.10
Net profit before provision for Federal income taxes	\$ 2,473,846.12
PROVISION FOR FEDERAL INCOME TAXES.....	406,000.00
Net profit carried to earned surplus.....	\$ 2,067,846.12

**NOTE:**

The provision for depreciation of buildings and equipment for the current year was \$878,523.71. In addition, amortization of short life equipment, which substantially represents current expenditures, amounted to \$426,046.76.

**CONSOLIDATED EARNED-SURPLUS ACCOUNT  
FOR THE YEAR ENDED SEPTEMBER 30, 1938**

BALANCE, SEPTEMBER 30, 1937.....	\$ 2,719,488.30
NET PROFIT FOR THE YEAR ENDED SEPTEMBER 30, 1938.....	2,067,846.12
	\$4,787,334.42
DIVIDENDS PAID:	
On 4½% preferred stock—\$4.50 per share.....	\$ 449,989.27
On common stock—\$1.50 per share.....	1,938,675.50
BALANCE, SEPTEMBER 30, 1938.....	\$ 2,398,669.65



## DIRECTORS

SANFORD J. BOWYER  
JUSTIN W. DART  
HARRY GOLDSTINE  
ROBERT G. KNIGHT

ROLAND G. SCHMITT  
CHARLES R. WALGREEN  
CHARLES R. WALGREEN, JR.  
JAMES E. WARD

## OFFICERS

CHARLES R. WALGREEN	President
HARRY GOLDSTINE	Vice-President
CHARLES R. WALGREEN, JR.	Vice-President
A. L. STARSHAK	Vice-President
ROLAND G. SCHMITT	Vice-President & Secretary
ELMER E. RUECKERT	Treasurer
WILLIAM G. JOHNSTON	Ass't Sec'y
BERT O. PINCH	Ass't Sec'y

## COMMON STOCK

### CHICAGO

*Transfer Agent*  
FIRST NATIONAL BANK

*Registrar*  
HARRIS TRUST & SAVINGS BANK

### NEW YORK

*Transfer Agent*  
COMMERCIAL NATIONAL BANK & TRUST CO.

*Registrar*  
GUARANTY TRUST CO.

## PREFERRED STOCK

### CHICAGO

*Transfer Agent*  
FIRST NATIONAL BANK

*Registrar*  
HARRIS TRUST & SAVINGS BANK

### NEW YORK

*Transfer Agent*  
GUARANTY TRUST CO.

*Registrar*  
COMMERCIAL NATIONAL BANK & TRUST CO.

